

105TH CONGRESS
1ST SESSION

S. 576

To amend the Internal Revenue Code of 1986 to provide that corporate tax benefits from stock option compensation expenses are allowed only to the extent such expenses are included in corporate accounts.

IN THE SENATE OF THE UNITED STATES

APRIL 15, 1997

Mr. LEVIN (for himself and Mr. MCCAIN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide that corporate tax benefits from stock option compensation expenses are allowed only to the extent such expenses are included in corporate accounts.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Ending Double Stand-
5 ards for Stock Options Act”.

1 **SEC. 2. REQUIREMENTS FOR CONSISTENT TREATMENT OF**
 2 **STOCK OPTIONS BY CORPORATIONS.**

3 (a) CONSISTENT TREATMENT FOR TAX DEDUC-
 4 TION.—Section 83(h) of the Internal Revenue Code of
 5 1986 (relating to deduction of employer) is amended by
 6 adding at the end the following new paragraph:

7 “(2) SPECIAL RULES FOR PROPERTY TRANS-
 8 FERRED PURSUANT TO STOCK OPTIONS.—

9 “(A) IN GENERAL.—In the case of prop-
 10 erty transferred in connection with a stock op-
 11 tion, the deduction otherwise allowable under
 12 paragraph (1) shall not exceed the amount the
 13 taxpayer has treated as an expense for the pur-
 14 pose of ascertaining income, profit, or loss in a
 15 report or statement to shareholders, partners,
 16 or other proprietors (or to beneficiaries). In no
 17 event shall such deduction be allowed before the
 18 taxable year described in paragraph (1).

19 “(B) EXCEPTION FOR BROAD-BASED OP-
 20 TION PROGRAMS.—Subparagraph (A) shall not
 21 apply to property transferred in connection with
 22 a stock option if, at the time the stock option
 23 was granted—

24 “(i) substantially all employees of the
 25 corporation issuing such stock option were

1 eligible to receive substantially similar
2 stock options from such corporation,

3 “(ii) no individual performing services
4 for such corporation received more than 20
5 percent of the total number of stock op-
6 tions granted by such corporation during
7 the taxable year, and

8 “(iii) at least 50 percent of the total
9 number of stock options granted by such
10 corporation during such taxable year were
11 issued to employees other than individuals
12 performing executive or management serv-
13 ices for such corporation.

14 “(C) EMPLOYEES COVERED.—For pur-
15 poses of this paragraph, an employee shall be
16 taken into account only if—

17 “(i) the employee is a full-time em-
18 ployee, and

19 “(ii) substantially all of the services
20 performed by the employee for the corpora-
21 tion are performed within the United
22 States.

23 “(D) SPECIAL RULES FOR CONTROLLED
24 GROUPS.—The Secretary shall prescribe rules
25 for the application of this paragraph in cases

1 where the stock option is granted by a parent
 2 or subsidiary corporation (within the meaning
 3 of section 424) of the employer corporation.”

4 (b) CONSISTENT TREATMENT FOR RESEARCH TAX
 5 CREDIT.—Section 41(b)(2)(D) of the Internal Revenue
 6 Code of 1986 (defining wages for purposes of credit for
 7 increasing research expenses) is amended by inserting at
 8 the end the following new clause:

9 “(iv) SPECIAL RULE FOR STOCK OP-
 10 TIONS AND STOCK-BASED PLANS.—The
 11 term ‘wages’ shall not include any amount
 12 of property transferred in connection with
 13 a stock option and required to be included
 14 in a report or statement under section
 15 83(h)(2) until it is so included, and the
 16 portion of such amount which may be
 17 treated as wages for a taxable year shall
 18 not exceed the amount of the deduction al-
 19 lowed under section 83(h) for such taxable
 20 year with respect to such amount.”

21 (c) CONFORMING AMENDMENTS.—Section 83(h) of
 22 the Internal Revenue Code of 1986 is amended by striking
 23 “In the case of” and inserting:

24 “(1) IN GENERAL.—In the case of”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to property transferred and wages
3 provided on or after the date of the enactment of this Act,
4 pursuant to stock options granted on or after such date.

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